

# Minutes of the Meeting of the College Savings Program Board

Held in the State Treasurer's Conference Room, Fifth Floor  
1 South Pinckney Street  
Madison, Wisconsin

April 25, 2005  
9:00 a.m.

MEMBERS PRESENT: *Adamski, Darling, Johnson, Wegenke, Ron Yates for Durcan, Oemichen, Reid, Voight, Wolff*

MEMBERS PRESENT BY CONFERENCE PHONE: *Plale, Clumpner*

OTHERS PRESENT: Marty Olle and Rich Janosik, EDVEST Program; Susie Schooff, Sen. Plale's office; Matt Lobas, Drew Wineland and Andrew Owen of Wells Fargo; Brad Hub, Representative Kreibech's office; Susie Bauer, Robert W. Baird; Brian Elliott, Whyte Hirschboeck; Soyna Olsen-Hasek, DOA; John Rader, Office of State Treasurer; Ed Steck; Avi Lank, Journal Sentinel; Andy Washburn, American Express.

**I. Call to Order** – The meeting was called to order at approximately 9:02 a.m. by Board Vice-Chair *Voight*.

**II. Roll Call** – See above.

**III. Approval of Agenda** – *Wegenki* moved and *Reid* seconded approval of the agenda as posted and distributed. Motion passed by voice vote without objection.

**IV. Public Presentations** – None.

**V. Approval of Minutes** – *Johnson* moved and *Wegenki* seconded a motion to approve the minutes of the March 24, 2005 meeting of the Board, as distributed. Motion passed on a voice vote without objection.

## **VI. Administrative Reports**

**A. State Treasurer Comments** – *Voight* mentioned that the Board will discuss key issues related to investment options in the program and the upcoming Wells Fargo re-launch of the program. (*Adamski* joined the meeting at this point)

**C. Program Director Comments** --- *Olle* referred the Board to the most recent program activity tables and charts and asked for any questions from the members. Nationally, 529 program assets grew 49% to \$65 billion in 2004, and the combined Wisconsin programs are the 10<sup>th</sup> largest in the country, down from 7<sup>th</sup> largest two years ago. A recent report stated that financial firms need at least \$500 million in program assets to even consider remaining in the 529 business. Virginia and Rhode

Island are the first and second largest state programs, with Virginia at nearly \$10 billion in assets and Rhode Island at \$5.5 billion. EdVest and Tomorrow's Scholar have a total of 188,000 accounts and nearly \$1.4 billion in assets under management. 80% of the accounts have a balance of less than \$10,000, and 99% have a balance of less than \$50,000. The average account size for EdVest is \$6,700 and \$8,500 for TS.

The state is hiring a consultant to assist in structuring, writing, and evaluating an RFP and proposals for services for the program, as the Wells contract expires in May 2006. DOA is the lead agency for the RFP but the Board will have input into their work. The RFP for consultant services was released on Friday, April 23. The planned Board retreat would be a good time for this input to be gathered. *Wolff* mentioned that the due date for the RFP is May 11, and that budget authority for the consultant is contained in the state biennial budget. He suggested that the policy issues of the RFP would be an appropriate item of discussion for the Board.

*Olle* discussed an RFP to be issued by the Center for Social Development of Washington University in St. Louis, which will be studying a 529 model for use in asset building among the nation's youth, particularly in low and moderate income families. He suggested that the RFP might be a topic for discussion by the Outreach Committee of the Board. *Wegenke* suggested that the educational representatives on the EdVest Board would be helpful in working on a response to the RFP. *[Note: Staff concluded after subsequent analysis that several limitations in the state's ability to furnish initial and ongoing personal data regarding the families who would participate in the project significantly reduce the practicality of applying for the grant.]*

The Joint Finance Committee last week discussed the Treasurer's Office biennial budget request and set aside the EdVest request. This is unusual, as the items were considered non-controversial. The committee will revisit it in later budget deliberations.

*Olle* presented a brief update on the CD investment option from Lorrie Keating Heinemann. FDIC "pass-through" insurance for 529 plans may be approved at its May meeting. Banker's Bank will meet with Wells Fargo to see if it is feasible for the CD investment option to be offered through the program and to discuss operational issues. The CD investment will be considered a security, and regulated accordingly. Sales will have to be through a licensed individual. Brokers may not have enough economic incentive to want to offer the investment option. (*Darling* joined the meeting at this point.) *Adamski* mentioned that a financial institution could refer individual customers to a toll-free number at Banker's Bank or at Wells Fargo. The Board concurred that the investigation of the CD option should go forward.

*Janosik* discussed the progress of meetings that have been held between the SEC and representatives of the [national] College Savings Plan Network regarding standardized program disclosure standards. SEC comments about the disclosure standards questioned the method by which the standards would be monitored, whether the disclosure would be comparable across state plans, whether there is a full description of program risks and structure, and how program revenues might be used outside the program itself. Meetings between the CSPN and the SEC will continue to further refine these issues. Our program intends to fully comply with these disclosure principals.

**B. Board Chair Comments** -- *Darling* reported on the biennial budget deliberations. She said that there will have to be tough decisions made, and \$600 million worth of cuts will have to be made to close the deficit. The two priorities are K-12 education

and Medicaid. The state's ranking of 31<sup>st</sup> in BA degrees is a problem, given the amount of resources that goes into education in the state. Also, there is a rumor that some in the legislature are looking to take a portion of the EdVest contingency fund, which is not appropriate considering it is investors' funds. *Voight* mentioned that the legislature is looking at any possible source of cash, and gave the example of unclaimed property. *Wolff* stated the effect of taking money out of the trust fund fees would send a chilling effect to current and future investors in the program. *Voight* moved to confirm that the monies in the program are investor funds, and should only be used to pay expenses related to program operations. *Wegenke* seconded the motion. *Oemichen* agreed that the funds are in a trust, and should not be thought of as available for general state use. *Wegenke* stated that the Board has reduced program fees multiple times when fiscally prudent, but must also maintain a reasonable contingency reserve. *Darling* suggested that the consensus of the Board could be communicated to the legislature, and that a vote would not be necessary. She polled the board to get consensus on the motion.

## **VII. Old Business**

**A. EdVest Investment Options, Distribution, Portfolios and Fees – *Johnson***  
asked for a review of the various ways that a person can invest in the program. *Olle* responded that EdVest currently has about 100,000 participants, 70% of which purchased directly through Wells Fargo. The balance of these accounts is sold by advisors within the state. EdVest is about 95% Wisconsin residents. That part of the program is growing in relation to Tomorrow's Scholar, which is currently sold exclusively through American Express financial advisors. *Owens* stated that Wells Fargo's focus would be the direct sold program within the state. *Lobas* stated that the direct sold EdVest product would be sold in the state, advisors could sell the broker product in state, and the Tomorrow's Scholar program would be offered through advisors both within and outside the state. Wells Fargo has well over 400 selling agreements in place with brokers to sell the program. *Voight* discussed the development of the program and the importance of advisors in selling the program. *Olle* commented that most states that began selling only direct-sold programs have added an advisor-sold component.

*Washburn* of American Express discussed the load structure of Tomorrow's Scholar, relative to the increase that was approved in 2003. He described a rebate to be given to the purchasers of the program of \$1.6 million to investors that came into the program while the A-share sales charge was higher, and later reduced. The rebate will take place in June of 2005.

*Owen* presented many recommendations for the September re-launch of the programs. The first recommendation deals with the Baird Bond portfolio. It had been earlier recommended for elimination, but the revised recommendation keeps the Baird Bond portfolio in the program, in addition to the Wells Fargo Bond portfolio. *Wolff* mentioned that he is still concerned with the proliferation of portfolio offerings in the program, and would not like to see the program expanded without limit, as it makes investor choices more difficult and confusing. No Board action was necessary on this item.

Recommendation 2 deals with the advisor-sold EdVest plan, and would reduce the Class A load schedule for fixed income and stable value portfolios. It is standard in the mutual fund industry to differentiate by asset type. *Owen* suggested that this change would be consistent with the load structure for the mutual fund industry. The recommendation would affect existing and new account holders. *Voight* moved and *Adamski* seconded a motion to adopt

recommendation 2 regarding the Class A load schedule; motion carried by voice vote.

Recommendation 3 applies the load schedule for EdVest to the Tomorrow's Scholar program. Existing account holders will continue to pay sales charges at the rate they currently pay, but new customers would pay sales charges at the same rates as the EdVest program, differentiated by asset type. Breakpoints would also be changed to have more breakpoints and smaller bands. *Lobas* stated that the load schedule for TS needs to be competitive with other 529 programs in the country. He reviewed what other states are charging for their load-based programs. *Washburn* reviewed the other programs currently being sold in the American Express system, and their load structures. *Wolff* stated that he finds it odd that the industry requires higher prices and loads to be competitive, rather than lowering prices. This seems to put the financial advisor in direct conflict with the interests of their clients. He does not support the increase in sales loads.

*Owens* agreed that in an ideal world, it would be better not to have to compete by raising the sales charge to TS clients, but to compete on other "platforms" available to advisors, it is necessary to have an advisor compensation front-end load structure that is comparable to other state 529 programs. Without the recommended change, the program will not be able to gain distribution and increase the size of the TS program. If the share load is kept where it is, practically speaking, the program will not remain competitive. *Darling* asked why Virginia's College America plan is so successful. *Washburn* responded that since the program is made up of American Funds, which is capturing about 40% of the net flows into mutual funds in the advisor-sold channel, this program is benefiting from the fund family's success. They have tremendous market presence. One out of four advisors makes American Funds the number one fund family they sell.

The Board discussed the direction of the TS program and the effect of the proposed changes to the program. The future success of marketing the program was discussed, given the increased competition the program now faces. For American Express-sold programs, Fidelity is now the largest selling program they offer. Issues with Strong hurt sales through AMEX, and other firm's products have overtaken the lead that TS initially had in its distribution channel. The purpose of these load changes is partially to make the TS program more attractive to advisors. *Johnson moved and Oemichen seconded a motion to approve recommendation 3 regarding the Class A load schedule. Motion passed by voice vote.*

Recommendation 4 would increase Wells Fargo's plan administration fees for TS to reflect the proposed higher proportion of non-proprietary funds included in the TS program. Wells needs a higher fee level to reflect the broader distribution that is expected to be used for TS going forward. Three hundred intermediaries are expected to be distributing the new TS program, and Wells will be responsible for making available the necessary marketing and support for the large number of firms that will be selling the program. The new level of admin fees is comparable with other nationally distributed plans; there are no payments being made from AMEX to Wells going forward. There is no revenue-sharing above the 25 basis points that represents the shareholder servicing contract coming from AMEX, ING and Franklin Templeton. *Wegenke moved and Adamski seconded a motion to approve recommendation 4, relating to Tomorrow's Scholar administrative fees. Motion passed by voice vote. Oemichen and Wolff voted against the motion.*

*Owen* explained recommendation 5, which would expand TS investment options to add four investment portfolios that are presently included in the age-based portfolios but are not offered as stand-alone options, including the addition of the stable value portfolio. *Oemichen* moved approval of the motion, *Wegenke* seconded the motion. The motion passed by voice vote without objection.

Recommendation 6 is an update to the TS portfolios that would reallocate the portfolios to add new managers and add the funds discussed at the last meeting. [*i.e. Franklin Templeton and ING funds.*] Also the underlying fund expenses would be adjusted to reflect the new funds to be included in the portfolios as reflected on p. 25 of the proposals. All portfolios except the Income Portfolio will see a reduction in fees. The Conservative Portfolio fees remain unchanged. *Voight* moved to pass Recommendation 6 and *Johnson* seconded the motion. Motion carried by voice vote.

Recommendation 7 has been withdrawn by Wells Fargo, which means that the two advisor-sold parts of the program will not be merged. This allows EdVest to continue to be offered as both a no-load plan and an advisor-sold plan. Advisors will be able to offer their clients access to both EdVest and Tomorrow's Scholar.

#### **VIII. New Business**

*Owen* asked to address the Board regarding the pricing of bonds within Wells Fargo Funds, versus Strong's method of pricing bonds in its funds. Wells made a change to the former policy of Strong, which used the average of the bid and asked price. Wells Fargo's bond pricing policy is to use the average of bids. When this policy change was implemented by Wells for the former Strong portfolios, it resulted in a lower value for the bonds in the portfolios. This was a part of an overall review of Strong's policies, and it was revised to reflect the conservative approach of Wells Fargo as fund manager. The impact on the net asset value of the funds was effective on April 1, and reduced the NAV from 0 to 3 cents per fund. Some bond funds were affected more than others, and some EdVest portfolios were impacted by the change.

#### **IX. Announcements**

There were no other announcements. *Darling* asked about a date for the Board retreat, and *Olle* stated that no date has been decided upon at this time but will be shortly.

#### **X. Adjournment**

*Voight* moved and *Wolff* seconded a motion to adjourn. The motion carried by voice vote and the Board adjourned at approximately 11:00 a.m.